EXPORT POTENTIAL OF AGRICULTURE AND FOOD PRODUCTS OF NEPAL

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Agenda for Discussion

- Background
- Key agenda
  - Status and trend of agri-food products trade
  - Has anything produced good results? success stories? on export promotion of agri-food product
  - Existing policy framework – policies and practices
  - Key issues, constraints and challenges: TBT, capacity gap
- Conclusion and recommendations
Background
Important but underdeveloped Nepalese Agriculture

Jobs in agriculture:
- 74% (8 million people) are employed in primary production agriculture
- 61% are women
- 39% are men

Demographics:
- 28.5 million people live in Nepal
- 82% live in rural areas

GDP per Capita:
- Constant 2005 US$ 689.5

35% of GDP comes from agriculture
18% of GDP comes from agriculture

South Asia*

http://www.tao.org/taostat/en/#data/RL
Agriculture Resources of Nepal

Agricultural area

4,123,120 ha

= 29% of total land area

Source: FAOSTAT
Important Production Systems in Nepal

**Land use (% of total harvested area)**

- **Rice**: 3,017 kg, 31%
- **Maize**: 2,292 kg, 18%
- **Wheat**: 2,208 kg, 15%
- **Vegetables**: 12,194 kg, 5%
- **Lentil**: 942 kg, 4%
- **Potato**: 13,574 kg, 4%
- **Mustard**: 809 kg, 4%
- **Sugar cane**: 43,411 kg, 1%
- **Cow and Buffalo**: Milk 660, 13%
- **Goat**: Meat 11

**Yields** (Crops: kg/ha, Goat and poultry: kg/animal, Cow and Buffalo: Lt/animal)

- **Rice**: 3,632 kg/ha
- **Maize**: 2,705 kg/ha
- **Wheat**: 2,696 kg/ha
- **Vegetables**: 12,492 kg/ha
- **Lentil**: 665 kg/ha
- **Potato**: 20,427 kg/ha
- **Mustard**: 810 kg/ha
- **Sugar cane**: 65,168 kg/ha
- **Cow and Buffalo**: Milk 660
- **Goat**: Meat 11

*Permanent meadows and pastures as % of total land*
Key agenda

STATUS AND TREND OF TRADE OF AGRI-FOOD PRODUCTS
Current status of Agri-food trade in Nepal

Share of agro-food products in total export (%)
Import and Export of Agro-food commodities in Nepal

Import-Export of Agricultural Products
(2004-06 Base Price)

Import-Export of Food Excl. Fish
(2004-06 Base Price)
Import and Export of Agro-food commodities in Nepal

Export and Import Value Index of Agricultural Products (2004-2006 = 100)

Export and Import Value Index of Food (Excl. Fish) (2004-2006 = 100)
A Huge Trade Deficit in Agro-food Products

Trade deficit: 1133 million USD (2014/15)
What Agricultural Commodities We Export and Import?

Agriculture export share (2010-2013 average)

- Cardamoms: 17%
- Lentils: 16%
- Crude materials: 12%
- Tea: 9%
- Fruit juice: 12%
- Beverages, non-alcoholic: 6%
- Ginger: 4%
- Macaroni: 4%
- Cake, rapeseed: 3%
- Others: 3%

Total value = 190,144 Th US $ (2013)

Import Share in Nepal (2010-2013 average)

- Soybean oil: 43%
- Rice: 15%
- Palm oil: 10%
- Maize: 6%
- Cake, soybeans: 5%
- Food prep (nes): 5%
- Sunflower oil: 4%
- Soybeans: 3%
- Rapeseed: 3%
- Jute: 3%
- Others: 3%

Export value = 950,397 Th US $ (2013)
With whom We Trade?

Trade (2014)

Export (2014)
Dependency on South-Asian Trade

**Import**

- Afghanistan: 57.9%
- Bangladesh
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka

**Total trade**

- Afghanistan: 57.9%
- Bangladesh
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka
Key agenda

HAS ANYTHING PRODUCED GOOD RESULTS? SUCCESS STORIES?
Few Positive Signals on Trade Promotion

Trend of few fast growing export of agro-food products from Nepal
Successful Stories
1. Large Cardamom

- Third largest country in Large Cardamom export in the world
- Export Value was 20,437 USD in 2010 and 46,146 USD in 2015
- Disease and nursery management Program of Cardamom
- 64 nurseries are in operation
2. Ginger

- 235,000 MT of ginger were produced in 2013, 65% were exported
- MoAD has drafted a Nepal Ginger Promotion Strategy
- The National Spice Crop Development Program has developed a Five-Year Strategic Plan
3. Tea and Coffee Export

- **Coffee Policy, 2003;**
  - To promote the export of coffee with a view to substitute the import

- **Tea Policy, 2000;**
  - Import substitution and export promotion (through Auction system)
3. Tea and Coffee Export (Tea)

- Export of Orthodox tea = US$2.7 million (2013)
- 1,200 ha of plantation was certified for organic tea (2013)
- There are 50 tea producer cooperatives
3. Tea and Coffee Export (Coffee)

- In 1938 AD, Mr Hira Giri brought seeds of Coffee from Myanmar (Burma) and had planted in Gulmi District
- Remained unnoticed as a curiosity crop until 1970s, farmer-farmer spread for 4 decades
- Establishment of Nepal Coffee Company (NeCCo) in 1983/84
- By 2002, increase in the export and increase in domestic market consumption
- Coffee Development Program started by MoAD
- Coffee cultivation has gradually spread to about 42 districts (MOAD, 2015)
4. Vegetable

- Program launching
- Tools: Seed/Seedling, farm center/orchard management/germ plasm collection/capacity development
- 2930 ha additional vegetable production area has increased
- Additional 43950 MT fresh vegetable production has increased
Key agenda

EXISTING POLICY FRAMEWORK
Policy and Legal Framework

**Trade policies**
- Indo-Nepal trade treaty
- China-Nepal trade treaty
- SAFTA
- BIMSTEC
- WTO
- OBOR
- Supply policy
- NTIS
- Industrial Policy
- Competition Promotion and Market Protection Act
- SEZ Act
- Export and Import Act, 2013

**Agricultural policies**
- AOA
- TRIPs
- SPS
- ADS
- Agribusiness promotion policy
- National Coffee policy
- Dairy Policy
- National Tea Policy
- Floriculture promotion policy
- Industrial Trade Act
- Custom Act 2007

**National policies, strategies, frameworks**
- National Tea Policy
- National Coffee policy
- Dairy Policy
- Seed policy
- Seed vision
- Livestock Husbandry Policy

**National legal frameworks**
- Plant protection act and rules
- The Pesticide Act 1991 and Regulations 1993

**International conventions, treaties**
- Indo-Nepal trade treaty
- China-Nepal trade treaty
- SAFTA
- BIMSTEC
- WTO
- OBOR
- ITPGRFA, CBD

**14th Plan**
- Agriculture Policy
- Agro-biodiversity policy
- Seed policy
- Seed vision
Key agenda

NOTABLE INITIATIVES
Nepal Trade Integration Strategy 2010

Instrument
- Strengthen trade negotiations (especially Bilateral)
- Investment Facilitation
- Trade Facilitation
- Technical Standards
- Sanitary and Phytosanitary Measures
- Intellectual Property
- Commodity wise SWOT analysis and strategies for market promotion and export

Results
- Created greater awareness among farmers, producer associations and traders about export potential
- Value chain development Of pashmina, ginger and MAPs

Nepal Trade Integration Strategy 2016
High Value Agriculture Project (HVAP) (2010-2017)

- Apple, Ginger, Turmeric, Off-seasons vegetables, Goat, Timur (Zanthoxylum armatum DC) and Vegetable seeds
- Household assets index was increased by 18%
- 9,907 participating households increased their additional net income, on an average of NRs. 22,823 in 7 value chains
Agricultural Commodity Export Promotion Program

- Subsidized loan for export oriented production and trading
- Support to develop internal control on organic farming
- Support on organic certification
- Support development of value addition, warehouse and processing plans
Nepal Economic Agriculture and Trade (NEAT) 2010-2013

- $26.5 million increase in agricultural sales (ginger, tea, vegetables, lentils)
- 17,030 lentil-growing households trained in good agricultural practices
- 3,000 ginger farmers given contracts with private companies
- 718% average income increase for farmers who received training
- 111 tea, lentil, ginger, and vegetable collection centers improved through management capacity and infrastructure strengthening efforts
Agriculture Commercialization and Trade (PACT) 2012-2017

- 748 projects implemented and co-financed by 250 cooperatives, 211 farmer groups, 276 small & medium entrepreneurs and 11 producer associations

- Increase in the volume of selected agricultural commodities sold (Metric ton, Custom): milk (9598→16993 tons), parchment coffee (126→176 tons), ginger (930→2288 tons), honey (103→144 tons) per year
Prime Minister Agriculture Modernization Program (PMAMP)

- Assist to Agriculture Development Strategy (2015-2035)
- To be self-reliant
  - cereals (paddy, wheat and maize) within 3 years,
  - vegetables and fishes within 2 years
  - fruits within 7 years
- Four components:
  - Super Zones - 1,000 Ha
  - Zones – 500
  - Blocks – 100 Ha
  - Pockets 10 Ha
Key agenda

CONSTRAINTS AND CHALLENGES FOR EXPORT PROMOTION

- supply side constraints
- low investment
- Inadequate trade infrastructure
- Inadequate trade facilitation
Does Nepal has Comparative Advantage?

Revealed Comparative Advantage of Nepal for agro-food commodities in Regional Market

<table>
<thead>
<tr>
<th>Product</th>
<th>Product Name</th>
<th>Nepal</th>
<th>Rank for Nepal</th>
<th>India</th>
<th>Bangladesh</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>59</td>
<td>FRUIT, VEGETABLE JUICES</td>
<td>119.45</td>
<td>1</td>
<td>0.2</td>
<td>1.93</td>
<td>5</td>
<td>0.83</td>
</tr>
<tr>
<td>659</td>
<td>FLOOR COVERINGS, ETC.</td>
<td>19.71</td>
<td>4</td>
<td>1.03</td>
<td>0.06</td>
<td>1.2</td>
<td>0.15</td>
</tr>
<tr>
<td>23</td>
<td>BUTTER, OTHER FAT OF MILK</td>
<td>14.12</td>
<td>5</td>
<td>1.11</td>
<td>0.02</td>
<td>0.61</td>
<td>0.02</td>
</tr>
<tr>
<td>657</td>
<td>SPECIAL YARN, TXTL. FABRIC</td>
<td>13.31</td>
<td>6</td>
<td>0.93</td>
<td>1.05</td>
<td>0.93</td>
<td>1.91</td>
</tr>
<tr>
<td>1</td>
<td>LIVE ANIMALS</td>
<td>13.19</td>
<td>7</td>
<td>0.42</td>
<td>0</td>
<td>8.37</td>
<td>0.26</td>
</tr>
<tr>
<td>553</td>
<td>PERFUMERY, COSMETICS, ETC.</td>
<td>11.83</td>
<td>8</td>
<td>1.13</td>
<td>0.01</td>
<td>0.23</td>
<td>0.6</td>
</tr>
<tr>
<td>48</td>
<td>CEREAL PREPARATIONS</td>
<td>11</td>
<td>9</td>
<td>0.9</td>
<td>0.77</td>
<td>1.76</td>
<td>1.53</td>
</tr>
<tr>
<td>654</td>
<td>OTH. TEXTILE FABRIC, WOVEN</td>
<td>9.11</td>
<td>10</td>
<td>1.05</td>
<td>1.32</td>
<td>0.13</td>
<td>0.29</td>
</tr>
<tr>
<td>75</td>
<td>SPICES</td>
<td>8.05</td>
<td>12</td>
<td>0.99</td>
<td>0.11</td>
<td>0.41</td>
<td>4.34</td>
</tr>
<tr>
<td>54</td>
<td>VEGETABLES</td>
<td>7.47</td>
<td>15</td>
<td>0.86</td>
<td>0.86</td>
<td>2.67</td>
<td>0.64</td>
</tr>
</tbody>
</table>
Declining Comparative Advantage

Numbers of commodities which had revealed comparative advantages are reducing over the years and the degree of comparative advantages

**Trade complementary index**

<table>
<thead>
<tr>
<th>Exporting Country</th>
<th>Importing Country</th>
<th>Year</th>
<th>Nepal</th>
<th>India</th>
<th>Bangladesh</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>SAARC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td></td>
<td>2003</td>
<td>5.1</td>
<td>14.1</td>
<td>7.3</td>
<td>11.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2011</td>
<td>4.4</td>
<td>8.1</td>
<td>8.7</td>
<td>8.2</td>
<td>5.6</td>
<td></td>
</tr>
</tbody>
</table>

how well the export of one country matches the import of other countries in the region?
Constraints and Challenges for Agri-food Exports

- Slow growth of agriculture sector as a whole, slower than main trade partners
Constraints and Challenges for Agri-food Exports

- Too many smallholder farmers, lack economics of scale, competitiveness
- 44.7% of agricultural entities are commercialized and 55.3% are subsistence farming

<table>
<thead>
<tr>
<th>Selected Variables</th>
<th>1995/96</th>
<th>2003/04</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2015/16(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size of agriculture land (in hectares)</td>
<td>1.1</td>
<td>0.8</td>
<td>0.7</td>
<td>0.66</td>
<td>0.62</td>
</tr>
<tr>
<td>Holdings operating less than 0.5 hectare (% of total holdings)</td>
<td>40.1</td>
<td>44.8</td>
<td>51.6</td>
<td>53.5</td>
<td>51.1</td>
</tr>
</tbody>
</table>

- Low yield, low competitiveness

<table>
<thead>
<tr>
<th>Country</th>
<th>Arable Land/capita (ha) in 2014</th>
<th>Cereal yield (kg per ha) in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>0.049</td>
<td>4,406</td>
</tr>
<tr>
<td>China</td>
<td>0.078</td>
<td>5,886</td>
</tr>
<tr>
<td>India</td>
<td>0.123</td>
<td>2,981</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.168</td>
<td>2,747</td>
</tr>
<tr>
<td>Nepal</td>
<td>0.076</td>
<td>2,748</td>
</tr>
</tbody>
</table>
Constraints and Challenges for Agri-food Exports

Trade policy and trade agreements with India does not have the power to increase the export trade to India as compared to other South Asian countries. Boarder protection of India is one of the highest.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Agriculture</th>
<th>Non-Agriculture</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>5.9</td>
<td>7.1</td>
<td>5.3</td>
<td>2013</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>13.9</td>
<td>16.8</td>
<td>13.4</td>
<td>2013</td>
</tr>
<tr>
<td>India</td>
<td>13.5</td>
<td>33.5</td>
<td>10.2</td>
<td>2013</td>
</tr>
<tr>
<td>Nepal</td>
<td>12.2</td>
<td>13.8</td>
<td>12.0</td>
<td>2013</td>
</tr>
<tr>
<td>Pakistan</td>
<td>13.5</td>
<td>15.4</td>
<td>13.2</td>
<td>2013</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>9.9</td>
<td>25.7</td>
<td>7.5</td>
<td>2012</td>
</tr>
</tbody>
</table>

Source: World Tariff Profiles 2014, WTO
Giving priority to review and reform existing legislation on food safety to comply with international regulations and standards e.g. ADS, NTIS and Trade Policy

- Have not adopted all international standards and guidelines due to lack of adequate resources
- Hazard Analysis and Critical Control Point (HACCP) is still not mandatory for food producers, processor and handlers

Department of Food Technology and Quality Control

- Work as SPS inquiry point and communicate about SPS related rules, regulations and standards
- Certification for export and import of food
Procedural Barriers

- Governance and bureaucratic mechanism of the government agencies concerned with the export trade sector
- Quarantine approval from India is a major export barrier (hassles in quarantine, custom clearance etc)

<table>
<thead>
<tr>
<th>Stages (Export)</th>
<th>Nepal</th>
<th>Bhutan</th>
<th>Bangladesh</th>
<th>India</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days</td>
<td>$ Cost</td>
<td>Days</td>
<td>$ Cost</td>
<td>Days</td>
</tr>
<tr>
<td>Customs clearance and inspections</td>
<td>4</td>
<td>300</td>
<td>3</td>
<td>180</td>
<td>6</td>
</tr>
<tr>
<td>Documents preparation</td>
<td>14</td>
<td>295</td>
<td>16</td>
<td>350</td>
<td>14</td>
</tr>
<tr>
<td>Inland transportation and handling</td>
<td>18</td>
<td>1650</td>
<td>13</td>
<td>1350</td>
<td>4</td>
</tr>
<tr>
<td>Ports and terminal handling</td>
<td>4</td>
<td>300</td>
<td>6</td>
<td>350</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>2545</strong></td>
<td><strong>38</strong></td>
<td><strong>2230</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

Source: World Bank, 2014
Note: Days and US$ costs required for moving one 20 ft container
Structural Barriers

- Barriers created by the existing infrastructure, technology and market imperfections created by non-market forces (e.g. insufficient power, infrastructures, problems in labor relations, excessive politicization of labor)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Nepal Rank</th>
<th>Bhutan Rank</th>
<th>Bangladesh Rank</th>
<th>India Rank</th>
<th>Sri Lanka Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of roads</td>
<td>115</td>
<td>56</td>
<td>117</td>
<td>76</td>
<td>32</td>
</tr>
<tr>
<td>Quality of air transport</td>
<td>129</td>
<td>110</td>
<td>127</td>
<td>71</td>
<td>56</td>
</tr>
<tr>
<td>Quality of rail transport</td>
<td>N/A</td>
<td>N/A</td>
<td>75</td>
<td>27</td>
<td>42</td>
</tr>
<tr>
<td>Available airline seat millions km/week</td>
<td>80</td>
<td>141</td>
<td>59</td>
<td>12</td>
<td>55</td>
</tr>
<tr>
<td>Overall Quality of Transport Infrastructure</td>
<td>126</td>
<td>53</td>
<td>130</td>
<td>90</td>
<td>37</td>
</tr>
</tbody>
</table>

Constraints to Access to Indian Markets

NTIS 2016

- Duty-free access for most of its goods exports but similar benefits are also being extended to other LDCs or countries through RTAs, leaving Nepalese exporters with little or no tariff advantage.
- SPS quarantine inspection and food testing facilities available at only six of the 27 border crossings.
- Weak SPS capacity in Nepal.
- High transport costs.
- Small size of Nepalese producers/exporters.
- Lack of consistent quality is an issue, as is the absence of Nepalese branding.
Constraints to Access to Chinese Markets

NTIS, 2016

- Nepal has tabled a list of 497 products and China is ready to offer duty-free on 286 products
- Nepalese exporters complain about arbitrary and non-transparent customs valuation
- Exporters find the system of multiple import permits and licenses required by China confusing
- SPS requirements are rising
- Needs to strengthen bilateral negotiation efforts
- Road transport is difficult and the costs of trade facilitation and transport are high
This Thought should be for Regional Agricultural Trade Integration

- Diversity in sensitive list, harnessing comparative advantages
- Reducing structural and procedural barriers e.g. visa rules
- Special treatments to the land-locked countries by India: e.g. easy passage (until now only Kolkata port can be used by Nepal for overseas export)
- Technical cooperation to improve SPS standards: application of mutually recognizable standards and certifications
- Control of non-recorded (illegal trade) across the border
- Fair trade arrangement with India is important than any other trade issues
Thank You